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DE RUEHMC #0490/01 3042033
ZNR UUUUU ZZH
P 302033Z OCT 08
FM AMCONSUL MONTERREY
TO RUEHC/SECSTATE WASHDC PRIORITY 3229
INFO RUEHME/AMEMBASSY MEXICO PRIORITY 4251
RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUEHOT/AMEMBASSY OTTAWA PRIORITY 0040
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEHMC/AMCONSUL MONTERREY 8746

UNCLAS SECTION 01 OF 02 MONTERREY 000490

SIPDIS

DEPARTMENT PLEASE PASS TO U/S RUBEN JEFFREY III
DEPARTMENT PLEASE PASS TO EEB A/S DANIEL SULLIVAN

E.O. 12958: N/A

TAGS: [ENRG](#) [EPET](#) [ECIN](#) [ECON](#) [PGOV](#) [MX](#)

SUBJECT: BORDER ENERGY FORUM FOCUSES ON BILATERAL ENERGY COOPERATION
AND RENEWABLE ENERGY

REF: A) MONTERREY 397 B) MEXICO 3208

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¶1. Summary. The fifteenth annual Border Energy Forum held in Monterrey emphasized cross-border energy cooperation and the potential of renewable energy. EEB officer Matt McManus praised Mexico as a reliable energy producer, and announced the signing of a Presidential Permit to allow a PEMEX subsidiary to build a gasoline pipeline from El Paso, Texas to near Ciudad Juarez. The conference attracted substantial interest in renewable energy from private sector companies. Despite the concurrent discussion of energy reform in the Mexican Congress, there was little discussion of the reform package, other than one presenter who thought that it provided little incentive to drill deep water oil wells in the Gulf of Mexico. End Summary.

¶2. Over three hundred representatives from business, NGOs as well as state, local and federal government officials from the U.S. and Mexico attended the Border Energy Forum held in Monterrey on October 23 and 24. Interest in the conference exceeded organizers expectations and many conference sessions were oversubscribed. The USG was well represented by the Consul General, EEB Energy Producer Affairs Division Chief Matt McManus, the Embassy Mexico Energy Attache and econoff. Energy is a key issue in Northern Mexico due to the border region's industrial production, population growth, importance as an energy transit point, and the need to expand renewable energy.

Enhancing Border Energy Cooperation

¶3. In the opening session, McManus emphasized that the U.S. values Mexico as a reliable energy partner, and that energy flows in all directions in North American, since the United States is a net exporter of gasoline and natural gas to Mexico. Moreover, the State Department has led efforts to streamline the Presidential Permitting process for cross-border energy pipelines. Indeed, McManus announced the issuance of a Presidential Permit by the State Department to PEMEX's PMI subsidiary for the Frontera Juarez Pipeline. The pipeline will transport gasoline and diesel from El Paso, Texas, to Ciudad Juarez, Chihuahua, reducing the use of gasoline tanker trucks

across the land border, enhancing road safety and providing for more efficient energy transportation.

14. ConGen Monterrey also emphasized enhanced energy border cooperation in a side meeting with the Energy Council, a group of state legislators from 11 energy-producing U.S. states, five Canadian provinces and Venezuela. The council has had difficulty recruiting their Mexican State counterparts, partially since Mexican state representatives only serve one three year term, so there is constant turnover. The Consul General recommended first winning over Nuevo Leon's private sector to provide continued continuity and interest, and offered to introduce Energy Council members to key post private sector contacts at the next business roundtable hosted by the consulate.

Border Forum Strong Focus on Clean and Renewable Energy

15. Many of the main speakers and workshops focused on ways to develop renewable energy. The Mexican state of Nuevo Leon touted the SIMEPRODE project to convert waste into electricity (see reftel A). The landfill project converts methane gas produced from the landfill into 12MWh of electricity for Monterrey and other cities in the state of Nuevo Leon. The project provides a renewable energy source and keeps a potent greenhouse gas from entering the atmosphere. Many government officials and small businesses were also interested in learning about funding schemes for renewable energy from organizations such as OPIC, the Inter American Development Bank, the State of

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New Mexico Governor's Office and the Houston Technology Center. These organizations presented case studies of how they are able to finance and provide technical assistance with companies working in clean or renewable energy. Small US companies in particular were interested in working on renewable energy projects in Mexico but were unsure about the Mexican federal regulatory requirements, which restrict commercial sale of energy.

16. Alejandro Lambreton Narro, the Nuevo Leon State Energy Coordinator, called for more development in natural gas infrastructure including natural gas from the United States. Natural gas is cleaner and cheaper, and needed by rapidly expanding cities in Northern Mexico and rural areas alike. However, in many cases the government is unable to deliver natural gas to rural areas in Mexico. The PEMEX Cuenca de Burgos facility in Tamaulipas was cited as an example of how a successful natural gas project can provide a cheap, reliable source of energy.

17. At the conference there was a strong consensus that Mexico must institute carbon sequestration and storage programs to be able to successfully compete in a cap and trade system envisioned in any 2012 post-Kyoto Protocol agreement. Given current population growth and industrialization, CO2 emissions are expected to increase 90% by 2050. The technology for carbon sequestration and storage has existed for over 30 years but is not in use in Mexico. There remain many difficult hurdles before any system can be put in place such as proper financing, insurance and accountability.

Doubt that Energy Reform will Spur Deep Water Drilling

18. The only conference breakout session focused on oil was devoted to deepwater exploration. A senior representative from an international oil company focused on the cost and technological challenges firms face exploring and producing in ultra deepwaters. He noted that firms in ultra deepwater development work in partnership with other companies to diversify risk due to the extreme cost of the projects. Former SENER and SRE official, private consultant, Dra Lourdes Melgar expressed disappointment with the limited nature of Mexico's energy reform. She showed a map which illustrated extensive deepwater drilling in U.S. waters of the Gulf of Mexico, contrasted with the limited rigs developed close to shore in shallow waters on the Mexican side. As U.S. exploration approached the maritime border, including the 'donut hole', an area in which U.S. and Mexican coordination will be needed in the future, Melgar expressed concern that PEMEX would not have the technical and financial capability to partner with the U.S. in these deep water areas.

19. Comment. Aside from the one session on deep water drilling, the lack of discussion of Mexican energy reform was notable. The Mexican Congress was in the final stages of approving the energy reform package (see reftel B) during the Border Forum. Nevertheless, despite having a large number of energy executives and government energy officials at this conference, there was surprisingly little reaction to the PEMEX reform bill as most conference participants focused on renewable energy. Econoffs questioned various participants about the energy reform package, but only elicited vague praise that it was a step in the right direction. The next Border Energy Forum conference is scheduled for October 2009 in Houston, TX. End Comment.
WILLIAMSON